



Judicial Council of California

Administrative Office of the Courts

Trial Court Financial Policies and Procedures

Procedure No.
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ENCUMBRANCES

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Encumbrances

1.0 Purpose

The purpose of this policy is to establish uniform guidelines for the trial court to use in reserving or encumbering funds sufficient to cover its financial obligations.

2.0 Policy Statement

All commitments related to purchases shall be encumbered to ensure that adequate funds are available to pay invoiced amounts. Purchases include purchase orders, contracts, and other financial obligations that exceed \$500.

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4.0 Application

This procedure applies to all trial court officers, employees and agents.

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5.0 Definitions

1. **Encumbrances.** Obligations of monies in the form of purchase orders, contracts, and other commitments. These may include purchase card transactions, purchase orders, or contracts that are chargeable to a fund and for which part of the fund is reserved. The fund remains encumbered until the payment is made, the obligation expires, or cancellation occurs, at which time some or all of the encumbrance is reversed. An encumbrance is not an expenditure or a liability, but merely a reserve of funds. Expenditures are recorded when, and if, goods are actually provided or services are actually rendered.
2. **Unencumbered Balance of Fund.** That portion of a fund not yet expended or encumbered. Any such balance remaining at the end of the fiscal year shall revert to the available balance of the fund.

6.0 Text

1. As purchase orders or contracts are issued, they are forwarded to the court accounting department, County Auditor-Controller, or the court's outsourced accounting services provider so that encumbrance amounts may be posted. This encumbrance reduces the trial court's balance of funds. With each payment against a purchase order or contract, an equal amount of encumbrance is reversed. The reversal is posted to the purchase order or contract. At the end of the contract period, any remaining encumbrance balance is reversed by the final payment, or by a reversal entry.
2. As a part of the closing process each fiscal year, purchase orders and contract expenditures are accrued according to the procedures specified in Policy No. FIN 5.02 – Revenues and Expenditures. When these expenditure accruals are made, equal amounts of encumbrances are

$$\begin{array}{l}
 \text{Appropriations} \\
 - \text{ Actual Expenditures} \\
 - \text{ Encumbrances} \\
 = \text{ Available Appropriations}
 \end{array}$$

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reversed. For financial obligations that will be recognized in the next fiscal year, new encumbrances are established on July 1 to reserve sufficient funds.

6.1 Encumbering Funds

Encumbrances are used as a means of ensuring trial court resources are available to pay obligations as they become due. An encumbrance reserves the fund until an obligation is paid, cancelled, or expires. At the time of payment the encumbrance is reversed and the expenditure recorded. A purchase order or contract cannot be issued unless there is an unencumbered balance of fund that may be encumbered.

6.1.1 One-Time Obligations

One-time purchase orders/contracts for delivery of goods or services are encumbered for the full amount when issued, without regard to scheduled delivery date.

6.1.2 Blanket Purchase Orders with Releases

For blanket purchase orders with releases, only the release order amount is encumbered for an amount sufficient to cover specific goods or services ordered.

6.1.3 Ongoing Contracts

Long-term contracts and purchase orders should be structured to expire on June 30 and reopen on July 1, the beginning of the new fiscal year. However, if this is not possible, purchase orders and contracts should be encumbered to cover the maximum expenditures that may occur during the current fiscal year. At the beginning of the next fiscal year, the remaining obligation is encumbered.

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6.2 Obligations Not Encumbered

The following are examples of financial obligations that are typically not encumbered:

- a. Purchase orders or contracts that specify effective dates in a future fiscal year will not be encumbered until the beginning of that fiscal year.
- b. Warrant requests.
- c. Purchase card transactions.

6.3 Change Orders

Periodically, changes or amendments to existing purchase orders or contracts are processed. Encumbrances should be adjusted accordingly, to reflect the increases or decreases in the purchase orders or contracts.

6.4 Encumbrances at Fiscal Year End

Subject to annual approval by the Judicial Council, encumbrances as of a fiscal year end may be carried forward to the new fiscal year. These encumbered funds are available in the new fiscal year in addition to the budgeted amount for the new year.

6.5 Canceling an Encumbrance

An encumbrance may be canceled by expiration or by cancellation of the purchase order or contract. When this occurs, the unencumbered funds are available for other expenditures or encumbrances of the trial court.

7.0 Associated Documents